

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

STATE OF FLORIDA  
OFFICE OF FINANCIAL REGULATION  
TALLAHASSEE, FLORIDA

Written Agreement by and among

BANK HAPOALIM, B.M.  
Tel Aviv, Israel

BANK HAPOALIM, B.M.  
MIAMI BRANCH  
Aventura, Florida

FEDERAL RESERVE BANK OF NEW YORK  
New York, New York

FEDERAL RESERVE BANK OF ATLANTA  
Atlanta, Georgia

and

STATE OF FLORIDA  
OFFICE OF FINANCIAL REGULATION  
Tallahassee, Florida

Docket Nos. 09-083-WA/RB-FB  
09-083-WA/RB-FBR

OFR ADMINISTRATIVE  
FILE NO: 0645-FI-06/09

WHEREAS, Bank Hapoalim, B.M., Tel Aviv, Israel (the “Bank”), a foreign bank as defined in Section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7)), and its Aventura, Florida branch (the “Miami Branch”) are taking steps to address deficiencies in the Miami Branch’s corporate governance, operational controls, and compliance with applicable federal laws, rules, and regulations relating to anti-money laundering (“AML”), including the Bank Secrecy Act (“BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and the AML

requirements of Regulation K of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 211.24(f) and 211.24(j)), and Section 655.50, Florida Statutes;

WHEREAS, it is the common goal of the Board of Governors, the Federal Reserve Bank of New York, the Federal Reserve Bank of Atlanta, the State of Florida Office of Financial Regulation, the Bank, and the Miami Branch to ensure that the Bank and the Miami Branch fully address all deficiencies in the Miami Branch’s corporate governance, operational controls, and BSA/AML compliance; and

WHEREAS, on June 30, 2009, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Alberto Garfunkel and Ron Reshef to enter into this Written Agreement (the “Agreement”) on behalf of the Bank and the Miami Branch, respectively, and consenting to compliance with each and every applicable provision of this Agreement by the Bank, the Miami Branch, and their institution-affiliated parties, as defined in Sections 3(u) and 8(b)(4) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(4)), and Section 655.005(l)(i), Florida Statutes.

NOW, THEREFORE, the Federal Reserve Bank of New York, the Federal Reserve Bank of Atlanta, the State of Florida Office of Financial Regulation (collectively, the “Supervisors”), the Bank, and the Miami Branch hereby agree as follows:

## **CORPORATE GOVERNANCE AND OVERSIGHT**

### **Board Oversight**

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Supervisors a written plan to strengthen board oversight of the management and operations of the Miami Branch. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Miami Branch's condition and maintain effective control over, and supervision of, the branch's senior management and major operations and activities;

(b) an assessment of the effectiveness of the Bank's control infrastructure, corporate governance, organizational structure, and business line accountability, including reporting lines, with respect to the Bank's oversight of the Miami Branch;

(c) an assessment of the effectiveness of the Miami Branch's control infrastructure, corporate governance, and business line accountability, including reporting lines and the duties and responsibilities of each officer of the branch;

(d) the establishment of formal tracking and follow-up procedures to ensure corrective actions are taken to address audit and regulatory findings; and

(e) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Miami Branch.

### **Management Review and Oversight**

2. Within 120 days of this Agreement, the board of directors of the Bank shall complete a review of the effectiveness of the Miami Branch's corporate governance, control infrastructure, and business line accountability with respect to BSA/AML compliance (the "Management Review"). The purpose of this review shall be to enhance the Bank's

oversight of the Miami Branch's BSA/AML compliance program and to ensure the adequate staffing by qualified and trained personnel that is required for an effective control environment. The Management Review shall, at a minimum, address, consider, and include with respect to the Miami Branch's BSA/AML compliance function, the duties and responsibilities of each officer and staff member regarding BSA/AML compliance, including, but not limited to reporting lines within the Miami Branch and to the Bank that ensure the independence of the BSA/AML compliance function, and business lines' accountability.

3. Within 30 days of the completion of the Management Review, the board of directors shall submit a written report to the Supervisors that includes the findings and conclusions of the Management Review, and a description of any specific actions that the Bank and the Miami Branch propose to take, or have taken, to strengthen the management and oversight of the Miami Branch's BSA/AML compliance program.

#### **Internal Audit**

4. Within 60 days of this Agreement, the Bank and the Miami Branch shall jointly submit to the Supervisors an acceptable written enhanced internal audit program for the branch that shall, at a minimum, provide for:

- (a) Establishment, implementation, and maintenance of an audit schedule that is consistent with the branch's risk assessment;
- (b) measures to ensure that audits are completed within reasonable timeframes;
- (c) adequate staffing of the audit function by qualified staff; and

(d) procedures for management to promptly review audit reports, respond in writing to criticisms in audit reports, document corrective actions taken and specific resolution dates, and track unresolved audit issues.

### **Internal Controls**

5. Within 60 days of this Agreement, the Bank and the Miami Branch shall jointly submit to the Supervisors acceptable written internal control policies and procedures for the Miami Branch. The policies and procedures shall, at a minimum, provide for:

(a) Measures to ensure that all reconciliations are properly completed, including, but not limited to, reconciliations in custodian accounts; and

(b) measures to ensure the timely resolution of suspense account items.

### **Credit Administration**

6. Within 60 days of this Agreement, the Bank and the Miami Branch shall jointly submit to the Supervisors acceptable written enhanced credit underwriting procedures for the branch that shall, at a minimum, require a timely analysis of financial information for commercial and unsecured loans, including an assessment of the borrower's debt service capacity.

### **BSA/AML COMPLIANCE**

#### **BSA/AML Compliance Program**

7. Within 60 days of this Agreement, the Bank and the Miami Branch shall jointly submit to the Supervisors an acceptable written program for BSA/AML compliance for the Miami Branch designed to improve the branch's internal controls to ensure compliance with all applicable provisions of the BSA and the rules and regulations issued thereunder, and the requirements of Regulation K of the Board of Governors. The program shall include provisions

for updates on an ongoing basis as necessary to incorporate amendments to the BSA and the rules and regulations issued thereunder. At a minimum, the program shall include:

- (a) Improvements to the Miami Branch's system of internal controls to ensure compliance with all recordkeeping and reporting requirements;
- (b) an assessment of legal and reputational risks associated with each of the Miami Branch's types of products, services, and customers; and
- (c) adequate resources for the BSA/AML compliance officer, including sufficient staffing levels, to implement and maintain an effective program for compliance by the Miami Branch with all applicable BSA/AML requirements and the institution's internal policies and procedures.

#### **Suspicious Activity Reporting and Customer Due Diligence**

8. Within 60 days of this Agreement, the Bank and the Miami Branch shall jointly submit to the Supervisors an acceptable written enhanced customer due diligence program designed to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law against or involving the Miami Branch and suspicious transactions at the Miami Branch to law enforcement and supervisory authorities as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

- (a) A risk-focused assessment of the Miami Branch's customer base that:
  - (i) identifies the categories of customers whose transactions and banking activities are routine and usual; and

(ii) determines the appropriate level of enhanced due diligence necessary for those categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Miami Branch;

(b) for each customer who requires enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to verify the identity and business activities of the customer;

(ii) understand the normal and expected transactions of the customer;

and

(iii) periodically review the adequacy of the customer files documentation; and

(c) establishment of procedures and appropriate monitoring criteria to ensure proper detection and timely reporting of all known or suspected violations of law and suspicious transactions, including, but not limited to:

(i) effective monitoring of customer accounts and transactions;

(ii) appropriate participation by Miami Branch senior management and relationship managers in the process of identifying, reviewing, and reporting potentially suspicious activity;

(iii) adequate referral and escalation of information about potentially suspicious activity through appropriate levels of management and committees;

(iv) timely resolution of escalated issues by management and committees;

(v) adequate procedures to ensure the timely and complete preparation and filing of Suspicious Activity Reports; and

(vi) maintenance of sufficient documentation with respect to the investigation and analysis of potentially suspicious activity, including the escalation and appropriate resolution of concerns.

### **Approval, Implementation, and Progress Reports**

9. (a) The Bank and the Miami Branch shall jointly submit written programs, policies, and procedures that are acceptable to the Supervisors within the applicable time periods set forth in paragraphs 4, 5, 6, 7, and 8 of this Agreement.

(b) Within 10 days of approval by the Supervisors, the Bank and the Miami Branch shall adopt the approved programs, policies, and procedures. Upon adoption, the Bank and the Miami Branch shall implement the approved programs, policies, and procedures and thereafter fully comply with them.

(c) During the term of this Agreement, the approved programs, policies, and procedures shall not be amended or rescinded without the prior written approval of the Supervisors.

10. Within 10 days after the end of each month following the date of this Agreement, the Bank and the Miami Branch shall jointly submit to the Supervisors written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Agreement and the results thereof. The Supervisors may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.



## **Notices**

11. All communications regarding this Agreement shall be sent to:

- (a) Mr. Daniel Muccia  
Senior Vice President  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, New York 10045
- (b) Mr. Robert Schenck  
Vice President  
Federal Reserve Bank of Atlanta  
1000 Peachtree Street, N.E.  
Atlanta, Georgia 30309-4470
- (c) Ms. Linda R. Townsend  
Chief  
Bureau of Bank Regulation  
State of Florida  
Office of Financial Regulation  
Division of Financial Institutions  
200 E. Gaines Street  
Tallahassee, Florida 32399-0371
- (d) Mr. Alberto Garfunkel  
Member of the Board of Management  
and Head of International Activities  
Bank Hapoalim, B.M.  
46 Rothschild Boulevard  
Tel Aviv 66883, Israel
- (e) Mr. Ron Reshef  
Executive Vice President and Manager  
Bank Hapoalim, B.M.  
Miami Branch  
18851 NE 29<sup>th</sup> Avenue, Suite 800  
Aventura, Florida 33180

## **Miscellaneous**

12. The provisions of this Agreement shall be binding on the Bank, the Miami Branch, and each of their institution-affiliated parties in their capacities as such, and their successors and assigns.

13. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Supervisors.

14. Notwithstanding any provision of this Agreement, the Supervisors may, in their sole discretion, grant written extensions of time to the Bank and the Miami Branch to comply with any provision of this Agreement.

15. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Supervisors, or any other federal or state agency from taking any further or other action affecting the Bank, the Miami Branch, or any of their current or former institution-affiliated parties or their successors or assigns.

16. Pursuant to Section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under Section 8 of the FDI Act (12 U.S.C. § 1818).

17. Pursuant to Sections 655.033, 655.041 and 663.02, Florida Statutes, this agreement is enforceable by the Florida Office of Financial Regulation.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of this 8th day of July, 2009.

BANK HAPOALIM, B.M.

FEDERAL RESERVE BANK OF  
NEW YORK

By: /s/ Alberto Garfunkel  
Alberto Garfunkel  
Member of the Board of Management  
and Head of International Activities

By: /s/ Lawrence C. Bonnemère  
Lawrence C. Bonnemère for  
Daniel Muccia  
Senior Vice President

BANK HAPOALIM, B.M.  
MIAMI BRANCH

FEDERAL RESERVE BANK OF  
ATLANTA

By: /s/ Ron Reshef  
Ron Reshef  
Executive Vice President  
and Manager

By: /s/ Robert Schenck  
Robert Schenck  
Vice President

STATE OF FLORIDA  
OFFICE OF FINANCIAL REGULATION

By: /s/ John G. Alcorn  
John G. Alcorn for  
Linda R. Townsend  
Chief  
Bureau of Bank Regulation